

IX. PERSONAL CURRENT TAXES

Personal current taxes are payments, net of refunds, made by persons that are not chargeable to business expense.¹ Personal current taxes consist of taxes on income, including realized net capital gains, taxes on personal property, payments for motor vehicle licenses, and several miscellaneous taxes, licenses, and fees. Social security and Medicare taxes are excluded from personal current taxes. They are treated as an employer (or employee or self-employed) contribution for government social insurance. Personal current taxes also exclude taxes on real property, sales taxes, and certain penalty taxes. Taxes on real property paid by persons, except those primarily engaged in the real estate business, are treated as a business expense that is deducted from both gross monetary rental income and gross imputed rental income in the derivation of net rental income. Real property taxes paid by persons primarily engaged in the real estate business are also treated as a business expense and are deducted in the derivation of proprietors' income. Sales taxes are included in personal consumption expenditures. Penalty taxes such as the penalty tax on early IRA withdrawals are treated as a personal current transfer payment to government.

Personal current taxes are measured on a payments basis (that is, when paid) except for withheld taxes (largely taxes on wages and salaries) which are measured on an accrual basis.

The state estimates of personal current taxes are described in four sections: (1) personal current taxes to the Federal Government, (2) personal current taxes except personal property taxes to state governments, (3) personal current taxes except personal property taxes to local governments, and (4) personal property taxes to state and local governments.

Personal Current Taxes Paid to the Federal Government

Personal current taxes to the Federal Government consists of individual income tax payments, including tax payments on the income retained by fiduciaries on behalf of individuals. These payments accounted for 77 percent of total personal current taxes at the national level in 2005 (table H). The national estimates of personal current taxes and refunds are based mainly on data from the Treasury Department's *Monthly Treasury Statement*, supplemented with data on withheld social security taxes from the Social Security Administration and any refundable income tax credits.²

Individual income taxes

These payments are income taxes, net of refunds, paid by individuals. Gross payments are the sum of the income taxes that are withheld, usually by employers, from

¹ In the 2003 benchmark revision, personal nontaxes were renamed personal current transfer payments to government and are now included in personal outlays. Therefore, disposable personal income is now equal to personal income minus personal current taxes. Personal current transfer payments to government consist mainly of donations, fines and forfeitures.

² The refundable portion of an income tax credit, such as the earned income credit and the child tax credit, is treated as a personal current transfer receipt.

wages and salaries, the quarterly payments of estimated taxes on income that is usually not subject to withholding, and final settlements, which are additional tax payments that are made when the tax returns for a year are filed or as a result of audits.

Current methodology.—The state estimates of tax payments and refunds are prepared in three steps. First, estimates of net income tax payments are prepared using tabulations of data reported on individual income tax returns and published in the spring edition of the Internal Revenue Service's (IRS) quarterly *Statistics of Income Bulletin*. Since 1996, the first approximation of net income tax payments is calculated for each state as³

$$NTP = IT - (EITC - XEITC)$$

where:

NTP = Net income tax payments

IT = Income tax, including the alternative minimum tax, less all tax credits except the earned income credit. It excludes Social Security taxes on self-employment as well as certain penalty taxes.

EITC = Earned income credit

XEITC = Excess, or refundable, portion of *EITC*.

The 2005 state estimates of net income tax payments are extrapolations of the 2004 estimates using relative changes in wage and salary disbursements.

Second, estimates of refunds of income tax payments are prepared. For each state, the first approximation of tax refunds, *REFⁿ*, for year *n* is calculated as

$$REF^{\ n} = OPT^{\ n-1} - XEITC^{\ n-1} - RCC^{\ n-1}$$

where:

OPT = Overpayment of taxes

RCC = Refundable Child Credit.⁴

The national estimate is then allocated to states in proportion to the first approximations.

Third, estimates of the gross income taxes are calculated as the sum of net income tax payments and refunds.

³ The first approximation for 2001 was further adjusted to account for the large difference in the income taxes receipts and income tax liabilities. Income tax receipts were \$994.5 billion in 2001 compared to income tax liabilities of \$831.2 billion, a difference of 16.4 percent.

⁴ The child credit was originally authorized by the Taxpayer Relief Act of 1997 (Public Law 105-34) and accelerated and permanently extended in the child tax credit provisions in the Economic Growth and Tax Reconciliation Act of 2001, which sunsets on December 31, 2019. In tax year 2004 there were approximately \$14.1 billion in refundable child credits.

Method for earlier years.—For 1990-95 for each state, the first approximation of net income tax payments was calculated as

$$NTP = TTL - (EITC - XEITC) - SSSE$$

where:

TTL = Total tax liability before the earned income tax credit

SSSE = Social Security taxes on self-employed income.

TTL was used because the item *IT* was not available. Total Tax Liability includes items such as the penalty tax on early IRA withdrawals, which are treated as a personal current transfer payment to government. However, source data were available to adjust *TTL* only for the Social Security taxes on self-employed income.

Current taxes on income retained by fiduciaries.

These are taxes that are paid on the income that is received and retained by fiduciaries on behalf of individuals. Because state-level data for these taxes are unavailable, the national estimates are allocated to states in proportion to the sum of the dividends, taxable capital gains, and taxable interest received by individuals, as published in the *Statistics of Income Bulletin*.

Personal Current Taxes except Personal Property Taxes Paid to State Governments

Personal current taxes (other than personal property taxes) paid by individuals to state governments consist of payments of individual income taxes, motor vehicle and operator license taxes, and other license taxes. These payments accounted for about 20 percent of personal current taxes at the national level in 2005 (table H). The national estimates as well as the state and local estimates are based mainly on data from the Census Bureau's *Quarterly Summary of State and Local Government Tax Revenue*. Quarterly tax estimates are annualized and controlled to Census' *State Government Finances* fiscal year estimates.

The state estimates of individual income taxes net of refunds are based on the data from the Census Bureau's *Quarterly Summary of State and Local Government Tax Revenue*, *State Government Finances*, and *State Government Tax Collections (SGTC)*. Current year estimates are based mainly on quarterly data for the net individual income tax collections of each state government. These data are supplemented by data from individual states.⁵

The national estimate of personal current taxes for motor vehicle and operator licenses is distributed by state mainly by data from Census Bureau's *SGTC* supplemented by Federal Highway Administration data. The motor vehicle license fees paid by

⁵ The *Quarterly Summary of State and Local Tax Revenues* contains preliminary estimates of quarterly taxes for local property taxes and state taxes by type of tax. For some states, these quarterly estimates prove to be inconsistent with the fiscal year estimates reported in *SGTC*.

business are excluded from the *SGTC* data with state-specific ratios determined from Federal Highway Administration data for 1996.

Personal current taxes for other licenses consist of the estimates of the fees that are paid to state government agencies for hunting and fishing licenses for personal, rather than commercial, use and the estimates of the fees for other noncommercial licenses, such as those for the registration of pleasure boats and aircraft. The state estimates of these license taxes are based on data for both the noncommercial and the commercial taxes from *SGTC*.⁶

Personal Current Taxes except Personal Property Taxes Paid to Local Governments

Personal current taxes (other than personal property taxes) paid by persons to local governments consist of individual income taxes, payments for motor vehicle registration and licenses, and payments of miscellaneous taxes. These payments accounted for over 2.1 percent of total personal current taxes at the national level in 2005 (table H). The national estimates are based mainly on data from *State and Local Government Finances*.

State estimates are based on data from the quinquennial *Census of Governments*. Data from the annual *State and Local Government Finances* are used to interpolate between census years and extrapolate from the last census. The annual estimates for local governments in New York and the District of Columbia are based on quarterly income tax data from the State of New York and the Census Bureau's quarterly data for the District of Columbia. Estimates for the remaining localities with local income tax were estimated using 2004 *State and Local Government Finances* and judgmental trends.⁷

The estimates of taxes levied by local governments on owners or operators of motor vehicles—including the registration and inspection of the vehicles but excluding personal property taxes—are based on data from *State and Local Government Finances*.⁸

Miscellaneous taxes consist largely of fees for marriage licenses, the registration of pleasure boats, and licenses for pets. Estimates of these fees and taxes are based on data for local government "Other taxes" from *State and Local Government Finances*.

Personal Property Taxes Paid to State and Local Governments

These payments consist of taxes on the tangible and intangible personal property of individuals. These payments accounted for about 0.5 percent of total current taxes at the national level in 2005 (table H). The national estimates of these payments are based on data from *State and Local Government Finances*.

⁶ These data consist of the payments by both individuals and businesses, and the payments by individuals cannot be distinguished from those by businesses. Thus, the state estimates reflect the assumption that the geographic distribution of the payments by businesses and by individuals is the same as the national split.

⁷ The Census Bureau suspended the local government finance survey for FY2002-2003 and produced only national estimates of local finances. Therefore, there is no state level local Census data for FY2003.

⁸ See footnote 7.

The state estimates of personal property taxes paid to state and local governments are combined because the data to allocate these payments to each level of government are not available. The national estimate for state and local personal property taxes was distributed to the states using unpublished IRS estimates for personal property taxes, claimed by individuals who itemize deductions on their Federal individual income tax returns and selected state sources.